

Message Text

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ACTION EB-08

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UNCLAS BANGKOK 18338

E.O. 11652: N/A

TAGS: EAGR, TH

SUBJ: EFFECT OF DROUGHT ON THAI ECONOMY

1. SUMMARY: CURRENT DROUGHT CONDITIONS OVER PARTS OF THAILAND COULD CAUSE PROBLEMS IN TERMS OF LOWER CORN AND RICE SURPLUSES AVAILABLE FOR EXPORT AND SEVERE HARDSHIP FOR NORTHEASTERN PEASANTS ALREADY ON MARGIN OF SUBSISTENCE. IT IS DIFFICULT FOR EMBASSY TO FORECAST EFFECT ON RICE PRICES SINCE MUCH WOULD DEPEND ON PRODUCTION IN OTHER EXPORTING COUNTRIES. HOWEVER, MACRO-ECONOMIC IMPACT ON THAILAND IS UNLIKELY TO BE SIGNIFICANT. END SUMMARY.

2. RECENT PRESS REPORTS, ESPECIALLY ONE BY BANGKOK POST EDITOR THEN CARRIED IN THAT PAPER ON AUGUST 17, HAVE TAKEN ALARMIST VIEW OF CURRENT DROUGHT FORECASTING ALL SORTS OF DIRE RESULTS -- A SEVERE RICE SHORTAGE, HIGHER PRICES, CUTBACK OF EXPORTS, RELIEF AID TO FARMERS, RURAL INDEBTEDNESS AT A NEW HIGH. EMBASSY BELIEVES SITUATION TROUBLESOME BUT DOES NOT THINK THAT THE SITUATION IS UNCLASSIFIED

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ANYWHERE NEAR AS CRITICAL AS NEWS REPORTS. AGATT HAS BEEN REPORTING CONDITIONS FULLY IN USDA CHANNELS.

3. THE PATTERN OF INSUFFICIENT RAINFALL IS QUITE SPOTTY WITH THE MOST SEVERE CONDITIONS IN NORTHEAST THAILAND. THE CORN CROP HAS ALREADY BEEN AFFECTED PARTICULARLY IN NORTHERN PARTS OF THE CENTRAL PLAIN. CORN PRODUCTION WILL

BE DOWN AND THE EXPORTABLE SURPLUS WILL PROBABLY FALL ABOUT 25 PERCENT FROM A YEAR AGO TO 1.5 MILLION TONS. HOWEVER, OVER MOST OF CENTRAL PLAIN RICE TRANSPLANTING IS NOW PROCEEDING AT A FAST PACE. OVERALL SHORTFALL FROM LAST YEAR'S CROP COULD BE IN AREA OF 500,000 METRIC TONS OF PADDY OR TOTAL PRODUCTION OF 15 MILLION METRIC TONS VERSUS 15.5 MILLION IN 1976-77 CROP YEAR. EVEN WITHOUT SHORTFALL IN 1977-8 CROP, AGATT BELIEVES THAT RICE EXPORTS WILL SLOW DOWN OVER REMAINDER OF 1977 AND THAT LESS RICE WILL BE AVAILABLE FOR EXPORT IN 1978. THAILAND HAS MOVED 1.8 MILLION METRIC TONS ALREADY IN 1977 COMPARED TO JUST UNDER 1 MILLION TONS IN THE SAME PERIOD A YEAR AGO, MUCH OF IT BY GOVERNMENT-TO-GOVERNMENT SALES RATHER THAN THROUGH STRICTLY COMMERCIAL CHANNELS. AGATT HAS REPORTED THAT TARGET OF 2.4 MILLION TONS OF RICE FOR EXPORT IN 77 WAS NOT REALISTIC AND WAS UNLIKELY TO BE ACHIEVED.

4. LARGE SHIPMENTS OF RICE IN FIRST HALF WERE BASED ON DECISION OF COMMERCE MINISTRY TO PUSH GOVERNMENT-TO-GOVERNMENT SALES AT PRICES BELOW THAT OBTAINED FROM COMMERCIAL SHIPMENTS OF RICE. DECISION IS PARTLY A REFLECTION OF RTG REALIZATION THAT IF IT COULD NOT BEAT U.S. PL 480 TERMS, IT HAD TO MEET THEM. OTHER REASON WAS DESIRE TO KEEP UP PADDY PRICE PAID TO FARMERS. RESULT OF GOVERNMENT ACTION HAS BEEN TO BRING STOCKS IN COUNTRY UNCLASSIFIED

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TO LOWER THAN USUAL LEVELS. THIS IN ITSELF WOULD HAVE DICTATED GOVERNMENT SLOW DOWN ON EXPORT DRIVE. EXPECTED SHORTFALL IN PRODUCTION AND POSSIBLE NEED TO DIVERT RICE FROM CENTRAL PLAIN AREAS TO NORTHEAST WILL MEAN THAT GOVERNMENT WILL SLOW EXPORTS OVER REST OF YEAR AND NOT RESUME STEPPED-UP EFFORTS TO SELL RICE UNTIL DOMESTIC SUPPLY PICTURE IS CLEARER AT END OF 1977.

5. AREAS WHERE SITUATION IS MOST SERIOUS ARE LARGELY IN NORTHEAST, NOT A PRODUCER OF MUCH SURPLUS, SINCE MOST FARMERS THERE PRODUCE LITTLE MORE THAN THEY CONSUME. HOWEVER, WHILE THERE WOULD BE SERIOUS EFFECTS ON NORTHEASTERN FARMERS, EFFECT ON THAILAND ECONOMY AS A WHOLE IS UNLIKELY TO BE ESPECIALLY SIGNIFICANT. IF OTHER RICE EXPORTERS ARE UNABLE TO TAKE UP SLACK IN INTERNATIONAL MARKET CAUSED BY LOWER THAI RICE EXPORTS, PRICE RISE COULD MITIGATE OR EVEN CANCEL EFFECT OF LOWER VOLUME AND THUS HAVE NO IMPACT ON THAI EXPORT EARNINGS. O'DONOHUE

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